



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

GREAT WESTERN INSURANCE COMPANY

of

Ogden, Utah

as of

December 31, 2009



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September 30, 2010

Honorable Neal T. Gooch, Commissioner
Utah Insurance Department
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Salt Lake City, Utah 84114

Honorable Christina Urias, Director
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Arizona Department of Insurance
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Phoenix, Arizona 85018-7269

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
Virginia State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

GREAT WESTERN INSURANCE COMPANY
Ogden, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed a multi-state examination of Great Western Insurance Company. The Utah Insurance Department (Department) represented the Western zone. This examination covers the period of January 1, 2007 through December 31, 2009.

Examination Procedure Employed

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The findings from the last examination report were reviewed by the examination team and it was determined that the findings were satisfactorily addressed in a timely manner.

SUMMARY OF SIGNIFICANT FINDINGS

There are no findings in the current examination, including subsequent events, which are considered significant.

SUBSEQUENT EVENTS

There were no significant subsequent events to note.

COMPANY HISTORY

The Company was incorporated as a stock life insurance company under the laws of the state of Utah on March 1, 1983. A Certificate of Authority was issued by the Utah Insurance Department to write life and disability insurance on April 26, 1983. The Articles of Incorporation provide for a perpetual corporate existence.

In May 1989, the company's parent corporation, Lindquist & Sons, sold 50% interest of the company to Desert Lawn, Inc., of Las Vegas, Nevada. On December 17, 1992, the remaining shares owned by the Lindquist & Sons were sold to JAMEL Ltd, an affiliated organization. On March 18, 1996, Desert Lawn, Inc. and Palm Memorial Estate Plans, Inc. merged to form Palm Mortuary, Inc.

In December of 1998, the Company purchased a small inactive company, Great Western Life Insurance Company (GWLIC), domiciled in the state of Montana.

On 7 May 2008 Palm Mortuary, Inc sold its fifty percent (50%) interest in the Company. Fifty percent (50%) of Palm Mortuary, Inc. interest was sold to the Company to return to treasury stock and fifty percent (50%) to John E Lindquist personally. This was not considered a change in control as John E Lindquist was the Founder, President and leads the active management of the Company. In May of 2009 John E Lindquist sold the shares he owned back to the Company to return to the Company treasury.

As of December 31, 2009 JAMEL Ltd, a Utah Partnership, owns 100% of the company's outstanding shares. John E Lindquist is the General Partner and 33.3% owner of JAMEL Ltd. making him the ultimate controlling person.

Dividends and Capital Contributions

There were no dividends paid to shareholders during the period under examination.

Mergers and Acquisitions

There were no mergers or acquisitions during the time frame under examination.

CORPORATE RECORDS

The previous examination report as of December 31, 2006, dated January 10, 2008, was distributed and approved by the board of directors on June 4, 2008. The minutes of the stockholder and board of director meetings were reviewed for compliance and management support. The minutes reflect adequate approval and support for company operations.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicate the number of directors may be five or any number larger if approved by board. The current board of directors consists of six directors.

The following persons served as directors of the Company as of December 31, 2009:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Richard F. Fairbanks II Ogden, UT	Director, President Fairbanks, Inc.
Fred L. Meese Ogden, UT	Chief Financial Officer, Great Western Insurance Company
John A. Lindquist Ogden, UT	Chairman of the Board, Retired
Thomas H. Johnson Scottsdale, AZ	Chairman, Johnson Consulting Group
John A. Lindquist II Ogden, UT	Chief Operating Officer, Great Western Insurance Company
John E. Lindquist Ogden, UT	President/ Chief Executive Officer Great Western Insurance Company

The Company's bylaws provide for officers to consist of President, Secretary, and Treasurer. Other officers can be elected as deemed necessary.

The officers of the Company as of December 31, 2009, were as follows:

<u>Name</u>	<u>Title and Principal Occupation</u>
John E. Lindquist	President/Chief Executive Officer
Fred L. Meese	Secretary
John A. Lindquist II	Treasurer

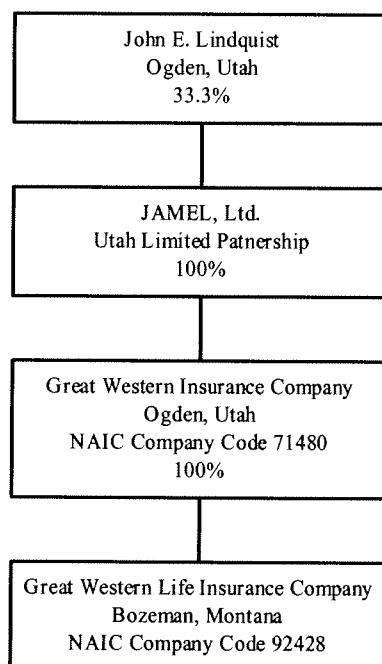
The Company's current structure satisfies its bylaws requirements. The Company's committees and the respective committee members as of December 31, 2009 were as follows:

Audit Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
John A. Lindquist II, Committee Chair	Chief Operating Officer, Great Western Insurance Company
John E. Lindquist	President/Chief Executive Officer Great Western Insurance Company
Ken Knauss	Retired

Holding Company

The Company is owned by a partnership, JAMEL Ltd (100,000 shares), the ultimate control of the registrant lies with John E. Lindquist, General Partner and 33.33% owner of JAMEL Ltd. An organizational chart illustrating the holding company system follows:

Holding Company Organization



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for the Company's size and premium volume is not less than \$1,000,000. As of the examination date, the Company participated in fidelity bond coverage of \$5,000,000. The Company also had insurance coverage for fire in the amount of \$1,000,000 and general operations liabilities of \$2,000,000.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offers a 401(k) profit sharing plan with matching contributions up to 5% for its full time employees. The employee may contribute up to 15% of the employee's regular wage. The Company also makes a profit sharing contribution annually based on the profitability of the Company. Participation in these programs is optional for employees.

In addition, the Company offers health insurance, dental insurance, group life insurance, long term disability insurance, and workers compensation. In addition the Company offers a funeral services benefit.

TERRITORY AND PLAN OF OPERATION

The Company was licensed and authorized to transact life, accident and health insurance in the following 45 states and the District of Columbia as of December 31, 2009:

Alabama	Idaho	Maryland	Nevada	Pennsylvania	Virginia
Arizona	Illinois	Massachusetts	New Hampshire	Rhode Island	Washington
Arkansas	Indiana	Michigan	New Mexico	South Carolina	Washington DC
California	Iowa	Minnesota	North Carolina	South Dakota	West Virginia
Colorado	Kansas	Mississippi	North Dakota	Tennessee	Wisconsin
Delaware	Kentucky	Missouri	Ohio	Texas	Wyoming
Florida	Louisiana	Montana	Oklahoma	Utah	
Georgia	Maine	Nebraska	Oregon	Vermont	

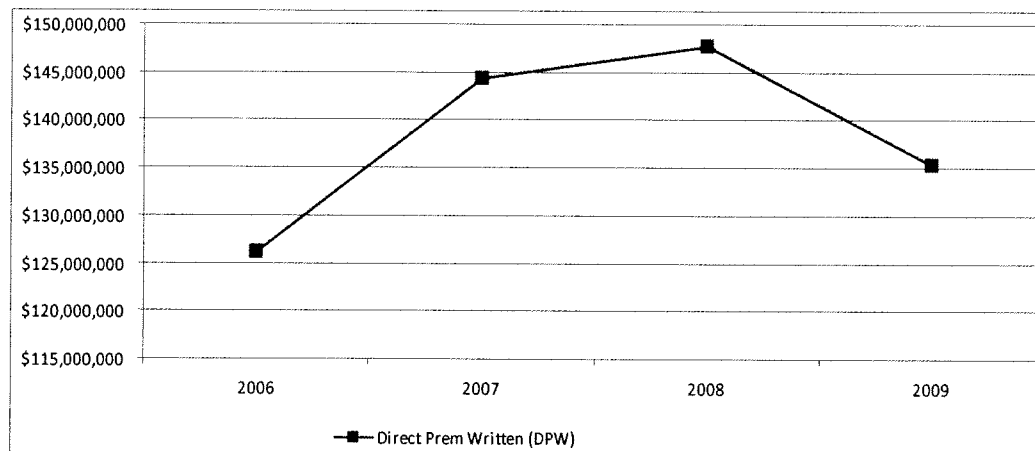
As of December 31, 2009, the Company marketed its products under a general agency plan. A home office sales staff is maintained to service existing general agents and solicit additional general agents as determined by the marketing department.

Premium was written in 40 states and the District of Columbia, with the largest concentration of premiums as follows:

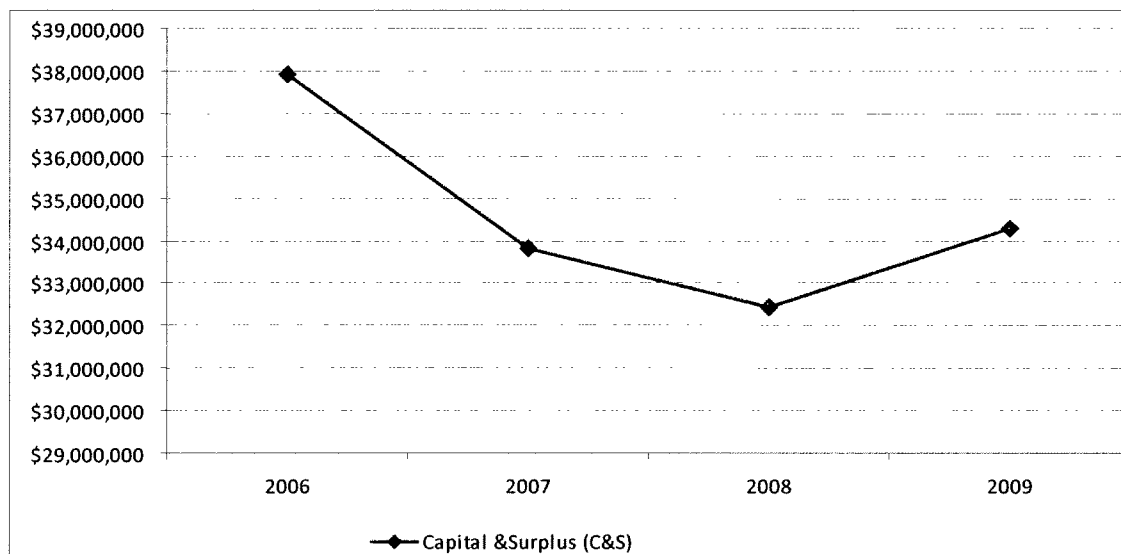
State	Direct Premium
California	\$ 24,354,765
Utah	11,259,930
Arizona	9,903,068
Wisconsin	7,284,729
Minnesota	6,926,777
Subtotal	59,729,269
All other States Etc.	73,664,176
Total Direct Premium	\$ 133,393,445

GROWTH OF COMPANY

Direct Premiums written increased 2006 to 2008 and then declined in 2009. The drop in premiums in 2009 is reflective of Management's decision to reinsure part of the Company's insurance risk.



The Company's capital and surplus declined from 2006 to 2008 and increased marginally in 2009. Net income has fluctuated, but direct premium and capital surplus trends suggest that the Company's overall financial results have been relatively stable during the examination period.



MORTALITY AND LOSS EXPERIENCE

The liability for life policyholder reserves is based on various standard industry mortality tables assuming interest rates which vary from 4.0% to 5.5%. The examination actuary verified that the actuarial assets, reserves, and liabilities reported by the Company are computed using accepted reserving methods and provide a reasonable provision for the unpaid loss obligations.

REINSURANCE

Assumed

As of July 11, 2001, the Company began assuming premiums from Southern Financial Life Insurance Company, a non-affiliated insurer. Under provisions contained in the reinsurance agreement, the Company assumed 100% of the net written premium with a 6% ceding fee. The maximum amount of loss coverage was \$20,000.

Ceded

On February 18, 2009, the Company entered into a reinsurance treaty with Ability Re. The agreement ceded 75% of gross premium for all policies written in 2006, 2007, and 2008 and still in force as of January 1, 2009. The treaty provided commissions to the Company from the assuming company. The treaty was effective in reducing liabilities and improving the Company's financial position.

ACCOUNTS AND RECORDS

The Company's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers. A trial balance, as of December 31, 2009, was prepared from the Company's general ledger.

An independent certified public accounting firm audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2009 were made available for the examiner's use.

Deficiencies encountered by the examination relating to accounts and records include:

1. The custodial agreement signed between Great Western Insurance Company and Wells Fargo Investments was not in compliance with the Utah Administrative Code (U.A.C.) Rule R590-178, as of December 31, 2009. The custodial agreement was amended to bring it into compliance and approved by the board of directors on August 16, 2010.
2. The minutes of the meetings of the shareholders did not contain evidence that directors' and officers' compensation and benefits were approved by the shareholders as required by Utah Code Annotated (U.C.A.) § 31A-5-416(2).

Subsequent to the examination as of date, during the examination, the majority shareholder approved the board of directors' compensation for the year 2010, and provided evidence of the approval to the examiners.

3. The Company is required by UCA 31A-16-105 to file a registration statement on a form prescribed by the NAIC containing among others, any agreements and transactions between affiliates. Upon review of the related party contracts, the examiner found that the transactions and information on Schedule Y were incomplete.
4. The Company did not prepare nor provide the annual report to the annuity contract holder as required by the policy form and Utah Administrative Code (U.A.C.) Rule 590-229-7 (Summary of Recommendations).

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a deposit in the amount equal to its minimum capital requirement. The minimum capital requirement is \$400,000 as specified by U.C.A. § 31A-5-211 (2) (a).

The special deposits, consisting of US Government bonds, maintained by domiciliary state, in the policyholder's behalf, as of December 31, 2009, were as follows:

<u>State</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	<u>\$4,752,805</u>	<u>\$5,213,125</u>

The special deposits held through various state insurance departments not held for benefit of all policyholders as of December 31, 2009 were as follows:

<u>State</u>	<u>Statement Value</u>	<u>Fair Value</u>
Georgia	\$ 150,000	\$ 161,379
Massachusetts	100,000	96,188
New Hampshire	476,332	469,378
New Mexico	150,000	158,813
North Carolina	<u>404,607</u>	<u>426,501</u>
Total	<u>\$1,280,939</u>	<u>\$1,312,259</u>

The total amount of special deposits for the benefit of policyholders in all other states is \$1,280,939.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying "comments on financial statements" are an integral part of the financial statements.

Great Western Insurance Company
BALANCE SHEET (ASSETS)
as of December 31, 2009

	Net Admitted Assets
	<hr/>
Bonds	\$ 388,059,073
Preferred Stocks	14,432,009
Common Stocks	4,715,268
First liens - mortgage loans on real estate	11,148,436
Properties occupied by the company	3,550,000
Properties held for sale	1,024,928
Cash and Short-Term Investments	17,837,787
Contract Loans	485,372
Receivables for Securities	1,200,000
Investment Income Due and Accrued	5,036,143
Uncollected Premiums and Agents' Balances	191,660
Deferred Premiums and Agent's Balances	5,815,448
Other Receivables Under Reinsurance Contracts	1,862,329
Federal and Foreign Income Tax Recoverable	416,088
Net Deferred Tax Asset	6,343,844
Electronic Data Processing Equip.	15,666
Receivables from parent, subsidiaries and affiliates	14,019
Total Assets	\$ <hr/> 462,148,070 <hr/>

Great Western Insurance Company
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of December 31, 2009

	<u>Current Year</u>
Aggregate reserve for life contracts	\$ 417,725,884
Contract claims: Life	1,841,422
Premiums, annuity considerations received in advance	14,834
Interest maintenance reserve (IMR)	1,580,339
Commissions to agents due or accrued	73,675
General expenses due or accrued	1,376,084
Taxes; licenses and fees due or accrued;	404,121
Current federal and foreign income taxes	1,773,984
Amounts withheld or retained by company as agent	63,774
Amounts held for agents' account	1,394,384
Remittances and items not allocated	775,986
Asset valuation reserve (AVR)	815,971
 Total Liabilities	 \$ <u>427,840,458</u>
 SURPLUS AND OTHER FUNDS	
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	33,807,612
Less Treasury Stock, at cost	(6,000,000)
Total Capital and Surplus	\$ <u>34,307,612</u>
 Total of Liabilities, Surplus, and Other Funds	 \$ <u>462,148,070</u>

Great Western Insurance Company
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2009

	<u>Current Year</u>
Premiums and annuity considerations	\$ 120,950,732
Net investment income	24,905,042
Amortization of interest maintenance reserve (IMR)	(48,667)
Commissions and expense allowances on reinsurance ceded	(127,252)
Total Revenues	\$ <u>145,679,855</u>
Death benefits	45,119,677
Annuity benefits	1,726,763
Surrender benefits and withdrawals for life contracts	545,259
Increase in aggregate reserves	56,607,432
Total benefits and reserves	\$ <u>103,999,131</u>
Commissions on premiums, annuity considerations and deposit-type contract	18,942,267
Commissions and expense allowances on reinsurance	134,834
General insurance expenses	10,141,871
Insurance taxes licenses and fees, excluding federal income tax	3,655,560
Increase in loading on deferred and uncollected premiums	2,134,578
Total expenses	\$ <u>35,009,110</u>
Total Expenses, Benefits and Reserves	<u>139,008,241</u>
Net gain before dividends and federal income taxes	\$ 6,671,614
Net gain after dividends and before federal income taxes	6,671,614
Federal and foreign income taxes incurred	7,790,423
Net gain after div. and tax and before realized capital gain/loss	(1,118,809)
Net realized capital gains (losses)	<u>(2,948,011)</u>
Net Income (Loss)	\$ <u>(4,066,820)</u>

Great Western Insurance Company
RECONCILIATION OF CAPITAL AND SURPLUS
2007 through 2009

	2007	2008	2009	Note
Capital and surplus prior year	\$ 37,913,332	33,823,925	32,425,657	
Net Income	(3,425,857)	6,351,821	(4,066,820)	
Increase (decrease) in common stock	(2,044,122)	(3,411,080)	1,204,155	
Change in net deferred income tax	0	(2,955,900)	6,588,616	
Change in non-admitted assets	178,864	493,409	(226,164)	
Change in AVR	1,201,708	1,123,482	(493,251)	
Change in treasury stock	0	(3,000,000)	(3,000,000)	
Aggregate write-ins for gains and losses in surplus	0	0	1,875,422	
Net change in capital and surplus	(4,089,408)	(1,398,268)	1,881,959	
Capital and surplus end year	\$ <u>33,823,925</u>	<u>32,425,657</u>	<u>34,307,615</u>	(1)

COMMENTS ON FINANCIAL STATEMENTS

(1) Capital and surplus

\$34,307,615

The Company's capital and surplus, as of December 31, 2009, was determined to be recorded accurately. The examination did not have or require any changes to the capital and surplus account.

The Company's minimum capital requirement was \$400,000 as defined in U.C.A. § 31A-5-211(2)(a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital of \$35,140,629, which exceeded the company action level risk-based capital (RBC) requirement of \$14,475,386 by \$20,665,243.

SUMMARY OF RECOMMENDATIONS

The custodial agreement signed between Great Western Insurance Company and Wells Fargo Investments was not in compliance with the Utah Administrative Code (U.A.C.) Rule R590-178, as of December 31, 2009. The Company executed a custodial agreement that was compliant with U.A.C. Rule R590-178(5)(B) on August 16, 2010. The examination accepts the Company assertion that they will implement a process to perform an annual review of the custodial agreements for compliance with Utah code and rules.

The Company did not prepare nor provide the annual report to the annuity contract holder as required by the policy form and Utah Administrative Code (U.A.C.) Rule 590-229-7. The Company should provide annual reports to annuity contract holders as required by U.C.A Rule R590-229-7.

ACKNOWLEDGEMENT

Scott Garduno, FSA, MAAA, and Thomas L. Burger, FSA, MAAA of the actuarial firm of Taylor Walker and Associates performed the actuarial phases of the examination. In addition, Hermoliva Abejar, AFE participated in the examination and Donald Catmull, CFE and Colette Hogan Sawyer, CFE, CPM, PIR, supervised, representing the Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Aaron Phillips', with a stylized flourish at the end.

Aaron Phillips, CFE
Utah Insurance Department